Economic Outlook - EU27

		2002 % ch 02/01	2003 % ch 03/02	2004 % ch 04/03	2005 % ch 05/04	2006 % ch 06/05	2007 % ch 07/06 (forecast)	2008 % ch 08/07 (forecast)	2009 % ch 09/08 (forecast)
Real GDP *(European Commission)*[1]	Euro area	+0.9	+0.8	+2.0	+1.5	+2.8	+2.6	+2.2	+2.1
Constant prices	EU27	+1.2	+1.3	+2.5	+1.8	+3.0	+2.9	+2.4	+2.4
Real GDP *(Consensus Forecasts)*[2]	Euro area	+0.9	+0.8	+1.8	+1.6	+2.9	+2.6	+1.8	+2.0
Constant prices	EU27	n.a.	n.a	n.a	+1.7	+3.1	+2.8	+2.1	+1.9
Last Economic Report GDP Forecast	Euro area	+0.9	+0.8	+2.0	+1.5	+2.8	+2.6	+2.2	+2.1
	EU27	+1.2	+1.3	+2.5	+1.8	+3.0	+2.9	+2.4	+2.4
Private Consumption[1]	Euro Area	+0.9	+1.3	+1.6	+1.5	+1.8	+1.7	+2.1	+1.9
	EU27	+1.6	+1.7	+2.2	+1.7	+2.2	+2.3	+2.4	+2.2
Industrial Production[2]	Euro Area	-0.5	+0.3	+2.1	+1.4	+4.0	+3.4	+2.1	+2.2
Gross Fixed Capital Formation[1]	Constant prices Euro Area	-1.5	+1.3	+2.2	+2.7	+4.8	+4.7	+2.9	+2.6
	EU27	-0.6	+1.3	+3.2	+3.0	+5.9	+5.6	+3.5	+3.4
Consumer Prices[1]	Euro Area	+2.2	+2.1	+2.2	+2.2	+2.2	+2.0	+2.1	+2.0
HICP	EU27	+2.3	+2.1	+2.3	+2.3	+2.3	+2.3	+2.4	+2.2
Crude Petroleum[1]	USD/per barrel	25.0 (+0.1)	28.5 (+13.9)	38.0 (+33.4)	55.1 (+44.7)	66.2 (+20.2)	70.6 (+6.6)	78.8 (+11.7)	76.0 (-3.6)
Trade Balance[1]	Euro area	127.8	105.0	101.9	46.8	30.3	51.4	52.9	64.8
Bn EUR	EU27			-48.3	-109.7	-169.2	-168.0	-182.6	-187.8
Current Account balance[1]	Euro Area	57.0	32.4	62.5	-0.2	-7.4	-3.5	-5.2	3.0
Bn EUR	EU27			-20.6	-66.1	-92.1	-104.8	-124.4	-126.5
Unemployment[1*]	Euro Area	8.6	8.7	8.9	8.9	8.3	7.3	7.1	7.1
	EU27	8.8	9.0	9.1	8.9	8.2	7.1	6.8	6.6

Data is seasonally adjusted.

1) European Commission, Eurostat/DG ECFIN – *Autumn 2007 Economic Forecasts*; Annual % change unless otherwise indicated
2) Consensus Forecasts January 2008

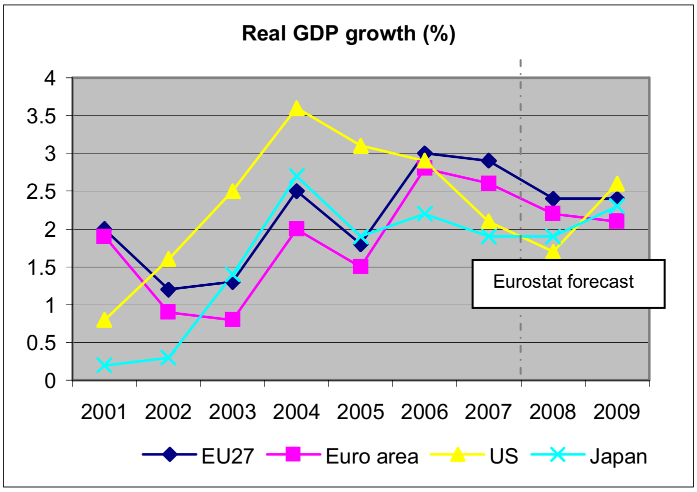
* In percent of total workforce, ILO definition

Euro area and EU27 economic outlook[1] – January-December 2007[2]

Still sound EU economic growth in 2007 expected to moderate in 2008

Despite torments on international financial markets, GDP in the **euro area** grew by 2.7% and in the **EU27** by 2.9% in **2007**. Economic outlook in Europe is deemed, however, to be affected by shrinking credit availability, soaring food and oil prices and US volatile economic performance in the short term. Taking into account negative impact of the financial markets turmoil in the summer of 2007, the European Commission has revised its forecasts for 2008 and 2009 downwards. Growth in the euro zone and in the EU27 is expected to slow down to 2.2% and 2.4%, respectively, in **2008** and to 2.1% and 2.4% in **2009**.

US (+2.2%) and **Japanese** (+2.1%) economies grew slower than the EU in 2007. Their economies are likely to be even less dynamic in 2008 (US 1.7%, Japan 1.9%) but are expected to rebound in 2009 (US 2.6%, Japan 2.3%).



Business and industrial confidence still high

The Commission's business and industrial confidence indicator for the euro area has been systematically increasing since the end of 2005 until recently. Despite a short recovery in November, a decline of one point was noted in December when the indicator reached the level of 2. However, the level of the indicator still exceeds its long-term average of -7.

Managers' assessments of order books and their production expectations deteriorated, while their views of the stocks of finished products improved slightly.

Industrial production fell in November by 0.5% in the euro area, as compared to October. The production of durable goods decreased by -1.9%, while the production of both energy and non-durable goods rose by 0.4% and 0.1%. Industrial production increased by 2.7% in 2007 compared to 2006, energy being the main driver (+6.2%).

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[1] *Sources:* European Commission (Eurostat, DG ECFIN – '*European Economy, Economic Forecasts, Autumn 2007*', '*Key Euro Area Indicators*', '*Business and Consumer Surveys*'), European Central Bank ('*Monthly Bulletin*'), Consensus Forecasts
[2] Some data for the fourth quarter 2007 were not available at time of printing; third quarter data reported in such cases

Investment on an upward trend

Gross fixed capital formation rebounded by 1.2% in the third quarter of 2007, after a slight down in the second quarter (quarter-on-quarter). Investment in equipment, as well as construction investment, expanded by 1.3% and 1.0% respectively. On an annual basis, investment growth was 4.7% in the third quarter of 2007. Capacity utilisation in the manufacturing sector remained stable at 84.2% in the fourth quarter, firmly above its long-term average (81.8%).

Private consumption yearly up by 1.6% in third quarter

The European Commission's consumer confidence was on an upward trend since mid-2005 until May 2007 when it started declining. The decline continued in December, mainly driven by deteriorated expectations regarding the general economic situation and the financial situation. However, the consumer confidence indicator still remains above its long-term average.

Private consumption increased by 0.5% in the third quarter of 2007 (q-o-q), following a similar rise (+0.6%) in the previous quarter. On an annual basis, household consumption expenditure rose by 1.6% in the third quarter of 2007, like it did in the second quarter.

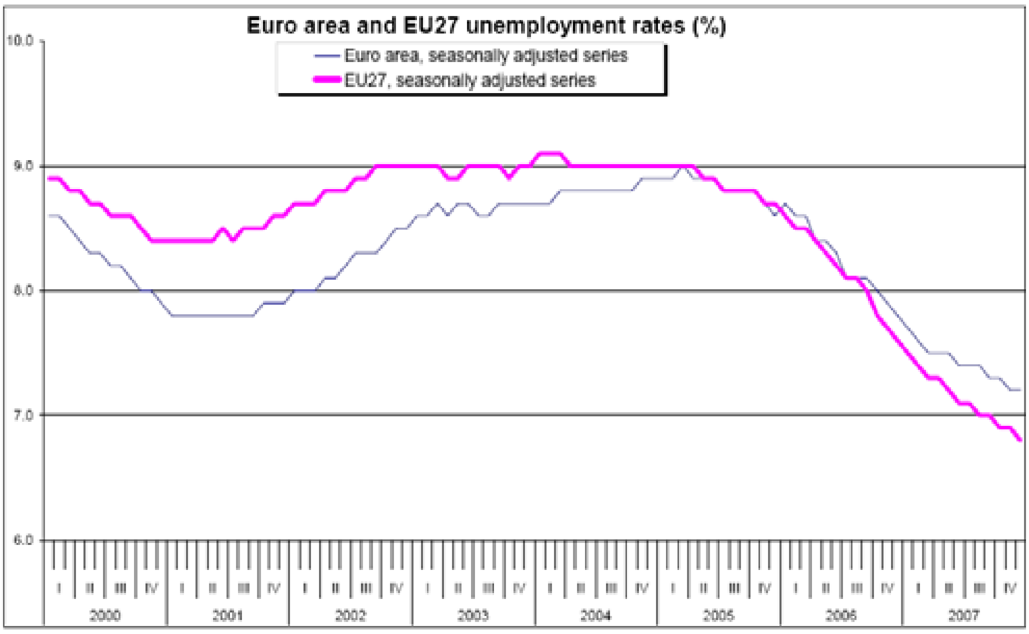
Trade surplus of 2.6 bn euro for euro-area; 16.8 bn euro deficit for EU27

Eurostat estimates for the euro area trade balance reveal a surplus of 2.6 bn euro in November 2007, compared to +5.4 bn euro in October. 2006 figures showed a greater surplus of 5.2 bn euro in November, after the October surplus of 2.4 bn euro.

The extra-EU27 trade balance for November 2007 resulted in a deficit of 16.8 bn euro, while a lesser deficit was registered in November 2006 (12.4 bn euro).

Euro area unemployment rate stable at 7.2%; EU27 down to 6.8%

From November to December 2007, the unemployment rate remained stable at 7.2% in the euro area, while the EU27 recorded a slight improvement from 6.9% in November to 6.8% in December. Both the euro area and the EU27 registered a higher rate for the same period last year with the respective figures of 7.8% and 7.6%.
2007 saw a positive trend in labour market conditions for twenty-four Member States. Only three saw their unemployment rate increase for the year.



Source: Eurostat

EU inflation at fourteen-year high (3.2%)

Inflation has remained stable over the fourth quarter of 2007 both in the euro area and the EU27 with respectively 3.1% and 3.2% in December. The rate in November was 3.1% for both areas. Although stable, inflation showed a higher level compared to last year. In December 2006, it was 1.9% for the euro area and 2.2% for the EU27.

Core inflation (HICP excluding energy and unprocessed food) in the euro zone in December 2007 was also stable at 2.3%. The high level of headline inflation remained mostly constituted of the acceleration in oil and food prices combined with unfavourable base effects of last year's decline in energy prices.

The main components with the highest annual rates in December 2007 were education (9.4%), transport (5.6%) and food (4.8%), while the lowest annual rates were observed for communications (-2.3%), recreation & culture (0.1%) and clothing (0.1%).

The euro area industrial producer price index rose by 0.8% in November 2007 compared to October, and increased by 4.1% compared to last year. Of note is the increase in energy prices (growth of 3.2% in November and 1.8% in October), which accounted for the major part of the rise in producer prices.

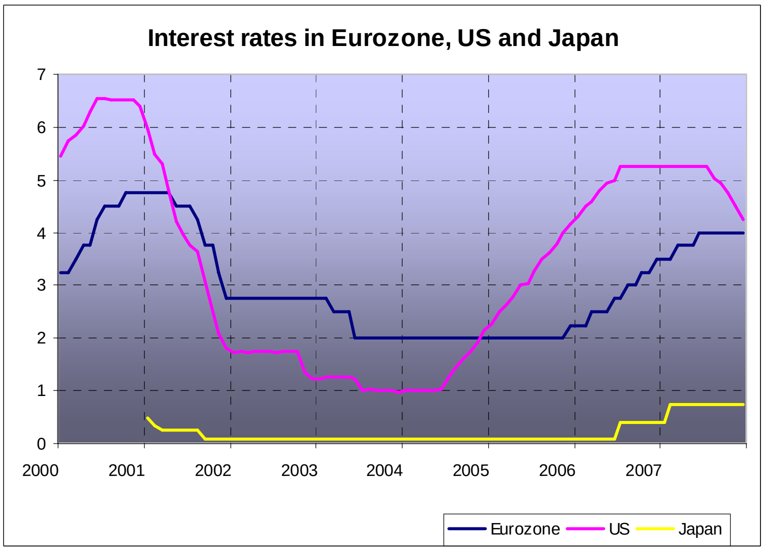
… and oil prices still nearing all-time record

The Brent Index continued to soar to 97 USD at the end of 2007 although oil prices have eased in the first half of January 2008, following a slowdown in the US. Prices are still driven by limited spare capacity, robust demand from emerging markets, geopolitical tensions in the oil producing countries and the weakness of the dollar. Compared to January 2007, oil prices are now about 73% higher in USD and 53% higher in EUR.

Monetary and Financial Indicators

ECB interest rates on hold since June 2007

On 13 June 2007, the ECB Governing Council decided to increase the policy interest rates by 25 basis points, raising the minimum bid rate on the main refinancing operations of the **Eurosystem** to 4%. To this day (14 February 2008) the interest rates have been left unchanged. The previous 25 basis points hike was decided on 14 March 2007. The interest rate on the marginal lending facility is currently at 5% and the interest rate on the deposit facility is at 3%.

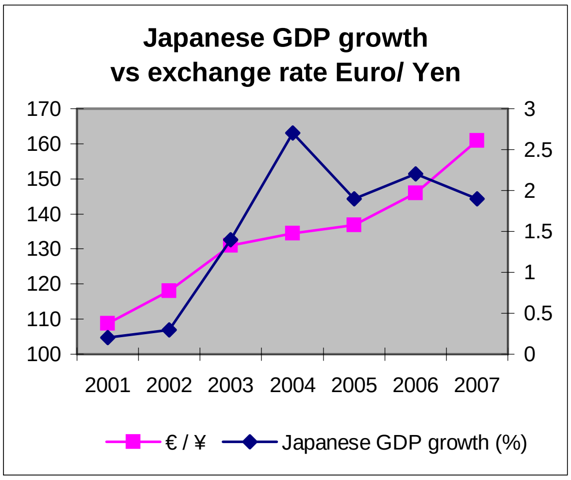


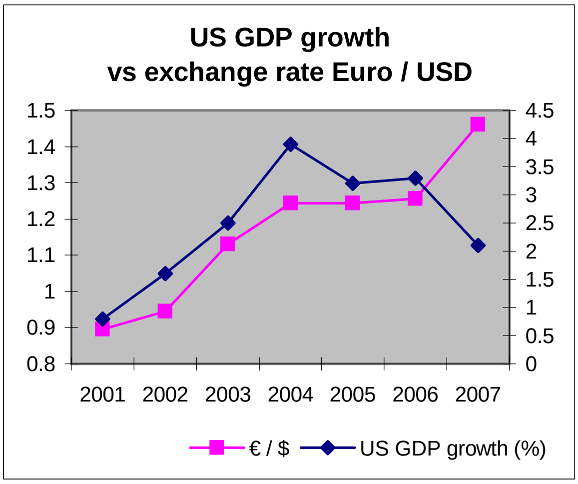
Hike in euro-dollar exchange rates moderated in nominal effective terms [3]

On the foreign exchange rate markets, the dollar continued to fall in the fourth quarter of 2007, mainly due to contrasting US economic results, concerns about developments in credit and housing markets and resulting uncertainty. The euro-dollar exchange rate was very unstable in January 2008 and ranged from 1.4895 to 1.4482.

The euro appreciated also vis-à-vis the Yen and reached a pick of 165.9 in November 2007. The trend has somewhat eased at the beginning of 2008.

On 14th February the euro stood at 1.4626 USD and 158.22 JPY. In nominal-effective terms, the exchange rate of the Euro appreciated by much less since autumn 2007 (around 1.2%).





Source: European Commission, ECB

[3] Against 13 other industrialized countries, double export weighted, 1995 = 100